



25 Sigourney Street
Hartford CT 06106-5032

STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

IP 2003(15)

INFORMATIONAL PUBLICATION

Q & A on the Business Entity Tax

Purpose: This Informational Publication answers frequently-asked questions about the Connecticut Business Entity Tax (BET).

Effective Date: Applicable to taxable years beginning on or after January 1, 2002.

Statutory Authority: Conn. Gen. Stat. §12-284b, as amended by 2003 Conn. Pub. Acts 2, §33.

Definitions: As used in this Informational Publication:

- **S corporation** means any corporation which is an S corporation for federal income tax purposes.
 - **Domestic S corporation** means any S corporation formed under Connecticut law.
 - **Foreign S corporation** means any S corporation formed under the laws of a state other than Connecticut.
 - **Limited liability company** or **LLC** means any limited liability company which, for federal income tax purposes, is either:
 - treated as a partnership, if it has two or more members; **or**
 - disregarded as an entity separate from its owner, if it has a single member ("single member LLC" or "SMLLC").
 - **Domestic LLC** means any limited liability company formed under Connecticut law.
 - **Foreign LLC** means any limited liability company formed under the laws of a state other than Connecticut.
 - **LLP** means any limited liability partnership.
 - **Domestic LLP** means any limited liability partnership formed under Connecticut law.
 - **Foreign LLP** means any limited liability partnership formed under the laws of a state other than Connecticut.
 - **LP** means any limited partnership.
 - **Domestic LP** means any limited partnership formed under Chapter 610 of the Connecticut General Statutes.
 - **Foreign LP** means any limited partnership formed under the laws of a state other than Connecticut.
 - **Secretary of the State** means the Connecticut Secretary of the State.
- 1. What types of business entities are liable for the BET?**
- For taxable years beginning on or after January 1, 2002, the following types of business entities are liable for the BET:
- Every domestic S corporation;
 - Any foreign S corporation required to file an annual report with the Secretary of the State;
 - Every domestic LLC (other than a domestic SMLLC);
 - Any domestic SMLLC disregarded, for federal income tax purposes, as an entity separate from its owner;
 - Any foreign LLC (other than a foreign SMLLC) required to file an annual report with the Secretary of the State;
 - Any foreign SMLLC disregarded, for federal income tax purposes, as an entity separate from its owner, and required to file an annual report with the Secretary of the State;
 - Every domestic LLP;
 - Any foreign LLP required to file an annual report with the Secretary of the State;
 - Any domestic LP formed under Chapter 610 of the Connecticut General Statutes; **and**
 - Any foreign LP required under Chapter 610 of the Connecticut General Statutes to file an annual report with the Secretary of the State.
- 2. What business entities are required to file an annual report with the Secretary of the State?**
- All domestic S corporations, domestic LLCs (including domestic SMLLCs), and domestic LLPs are required to file an annual report with the Secretary of the State;
 - All domestic LPs formed under Chapter 610 of the Connecticut General Statutes are required under Conn. Gen. Stat. §34-13e to file an annual report with the Secretary of the State. Even if the Secretary of the State has not prepared or mailed blank annual reports to these limited partnerships, they are liable for the BET because Conn. Gen. Stat. §34-13e requires them to file an annual report with the Secretary of the State;
 - Foreign S corporations, foreign LLCs (including foreign SMLLCs), and foreign LLPs, if required to obtain a certificate of authority or certificate of

registration from the Secretary of the State to transact business in Connecticut, are required to file an annual report with the Secretary of the State; **or**

- Foreign LPs required to obtain a certificate of registration from the Secretary of the State under Chapter 610 of the Connecticut General Statutes are required under Conn. Gen. Stat. §34-38s to file an annual report with the Secretary of the State. Even if the Secretary of the State has not prepared or mailed blank annual reports to these limited partnerships, they are liable for the BET because Conn. Gen. Stat. §34-38s requires them to file an annual report with the Secretary of the State.

3. How may a foreign business entity determine whether it is required to obtain a certificate of authority or a certificate of registration from the Secretary of the State?

The foreign business entity may contact the Secretary of the State by mail at:

Office of the Connecticut Secretary of the State
Commercial Recording Division
30 Trinity Street
Hartford CT 06106

or by e-mail at: crd@po.state.ct.us

4. What is the amount of the BET?

For taxable years beginning on or after January 1, 2002, and prior to January 1, 2003, the BET is \$250. For taxable years beginning on or after January 1, 2003, and prior to January 1, 2004, the BET is \$300. For taxable years beginning on or after January 1, 2004, the BET is \$250.

5. How does a business entity report and pay the BET?

A business entity reports the BET on **Form OP-424, Business Entity Tax Return**. The return must be accompanied by a check or money order made payable to "Commissioner of Revenue Services."

6. What is the due date for Form OP-424?

Form OP-424 is due on or before the fifteenth day of the fourth month following the end of the business entity's taxable year. A business entity's taxable year is its taxable year for federal income tax purposes. If a business entity had a short taxable year for federal income tax purposes, its **Form OP-424** would be due on or before the fifteenth day of the fourth month following the end of its short taxable year.

7. Is a business entity subject to interest and penalty for failure to timely pay the BET?

Yes. Failure to pay the BET when due subjects a business

entity to a \$50 late payment penalty. DRS may waive all or part of the penalty when it is proven the failure to pay the tax on time was due to a reasonable cause and was not intentional or due to neglect. Interest accrues on any unpaid tax at the rate of 1% (.01) per month or fraction of a month from the due date until the date of payment.

8. Will an extension of time to file Form OP-424 or to pay the business entity tax be granted to a business entity?

No.

9. Is the BET deductible for federal income tax purposes?

The Department of Revenue Services (DRS) does not answer questions about whether items are deductible for federal income tax purposes. Contact the Internal Revenue Service (IRS) at 1-800-829-1040 for information about whether the BET is deductible for federal income tax purposes.

10. For Connecticut income tax purposes, is the BET considered to be an income tax imposed by this state and required to be added to federal adjusted gross income by individual partners, members, or shareholders in computing their Connecticut adjusted gross income?

No. The BET is not considered an income tax imposed by this state.

11. If a business entity is inactive or unprofitable or no longer doing business but has not filed appropriate documents evidencing its dissolution or withdrawal with the Secretary of the State, is the business entity liable for the BET?

Yes. A business entity, even if inactive or unprofitable or no longer doing business, is and will continue to be liable for the BET until it files the appropriate documents evidencing its dissolution or withdrawal with the Secretary of the State. The business entity will also be liable for the BET for the taxable year during which the appropriate documents evidencing its dissolution or withdrawal are filed with the Secretary of the State. The tax may not be prorated.

12. Is a business entity that is required to file annual reports with the Secretary of the State but has not done so liable for the BET?

Yes. If a business entity is required to file annual reports with the Secretary of the State, it is liable for the BET whether or not it has filed those annual reports with the Secretary of the State. This would include, for example:

- All domestic S corporations, domestic LLCs, and domestic LLPs;

- Domestic LPs formed under Chapter 610 of the Connecticut General Statutes. Even if the Secretary of the State has not prepared or mailed blank annual reports to these LPs, they are liable for the BET because Conn. Gen. Stat. §34-13e requires them to file an annual report with the Secretary of the State; **or**
- Foreign LPs registered to transact business in Connecticut by having obtained a certificate of registration from the Secretary of the State under Chapter 610 of the Connecticut General Statutes. Even if the Secretary of the State has not prepared or mailed blank annual reports to these LPs, they are liable for the BET because Conn. Gen. Stat. §34-38s requires them to file an annual report with the Secretary of the State.

13. Is a general partnership liable for the BET?

A general partnership is usually not liable for the BET. However, if the general partnership has become a registered LLP (if organized under Connecticut law) or a foreign registered LLP (if organized under the laws of a state other than Connecticut), it is liable for the BET.

14. Is every domestic LP liable for the BET?

No. A domestic LP that is not formed under Chapter 610 of the Connecticut General Statutes is not liable for the BET.

15. Is an investing partnership liable for the BET?

An investing partnership that elects (under 26 C.F.R. §1.761-2) not to be treated as a partnership for federal income tax purposes and thus is not subject to Subchapter K of Chapter 1 of the Internal Revenue Code, is not liable for the BET.

However, an investing partnership that does not make the election and that is treated as a partnership subject to Subchapter K of Chapter 1 of the Internal Revenue Code is liable for the BET, if it is a:

- domestic LP or domestic LLP; **or**
- foreign LP or foreign LLP, if required to file an annual report with the Secretary of the State.

16. Is every SMLLC liable for the BET?

No. Any SMLLC that elected to be taxed as a corporation for federal income tax purposes is not liable for the BET.

17. If the single member of a SMLLC is exempt from taxation under 26 U.S.C. §501(a), does this affect whether the SMLLC is liable for BET?

No. If the SMLLC would otherwise be liable for the BET, that liability is unaffected by its single member being exempt from taxation under 26 U.S.C. §501(a).

18. If a business entity files a certificate of dissolution with the Secretary of the State before its liability for the BET is satisfied, is any other person liable for the BET?

It depends on the type of business entity that has dissolved. Under current law:

- Any claim against a dissolved LLC not barred according to Conn. Gen. Stat. §34-212 or §34-213 may be enforced against the dissolved LLC to the extent of its undistributed assets or against one or more of its members to the extent of their pro rata share of the claim or the assets of the LLC distributed to them in liquidation, whichever is less. No member's total liability for all claims shall exceed the total amount of assets distributed to that member (Conn. Gen. Stat. §34-214);
- Any claim against a dissolved corporation (including a dissolved corporation that was an S corporation for federal income tax purposes) not barred according to Conn. Gen. Stat. §33-886 or §33-887 may be enforced against the dissolved corporation to the extent of its undistributed assets or against one or more of its shareholders to the extent of their pro rata share of the claim or the assets of the corporation distributed to them in liquidation, whichever is less. No shareholder's total liability for all claims shall exceed the total amount of assets distributed to that shareholder (Conn. Gen. Stat. §33-887);
- Any claim against a dissolved LP may be enforced against one or more of its general partners. (Conn. Gen. Stat. §34-17(b)) In general, any claim against a dissolved LP may not be enforced against its limited partners (Conn. Gen. Stat. §34-15(a)); **or**
- Any claim against a dissolved LLP arising in the course of the partnership business while the partnership is a registered LLP may generally not be enforced against its partners (Conn. Gen. Stat. §34-327(c)).

19. Is a qualified subchapter S subsidiary liable for the BET?

No. Even though a qualified subchapter S subsidiary ("QSSS"), as defined in 26 U.S.C. §1361(b)(3)(B), may be required to file an annual report with the Secretary of the State, a QSSS is not liable for the BET because it is not an S corporation. However, the S corporation that owns 100% of the stock of the QSSS is liable for the BET if it is a:

- Domestic S corporation; **or**
- Foreign S corporation, and it is required to file an annual report with the Secretary of the State.

20. May a business entity be liable for the BET for any period prior to the start of business date indicated on Form REG-1, *Business Taxes Registration Application*?

Yes. Regardless of the date indicated on **Form REG-1** as the start of business, a business entity is liable for the BET:

- As a domestic business entity, for every taxable year (or part thereof) of its legal existence as shown by the records of the Secretary of the State; **or**
- As a foreign business entity, for every taxable year (or part thereof) it is required to obtain and maintain a certificate of authority or certificate of registration from the Secretary of the State to transact business in Connecticut.

21. What is the “Secretary of the State ID Number” and must a business entity have that number in order to file Form OP-424?

The Secretary of the State issues a 7-digit “Business ID” number to each domestic and foreign business entity that is registered with the Secretary of the State. A business entity registered with the Secretary of the State may find or confirm its Business ID number by logging onto the Web site of the Secretary of the State at: **www.concord.state.ct.us**

A business entity that is liable for the BET must file **Form OP-424**, whether or not it finds or confirms its Business ID number.

22. What should a business entity do if it does not have a Federal Employer Identification Number (FEIN)?

A business entity that is liable for the BET must file **Form OP-424**, whether or not it has an FEIN. If a business entity does not have an FEIN, it should leave the space for its FEIN blank, and obtain an FEIN from the IRS if required by Federal law to do so. If an FEIN is obtained after **Form OP-424** is filed, the business entity must send notification of the FEIN to:

Department of Revenue Services
Registration Unit
PO Box 2937
Hartford CT 06104

Effect on Other Documents: None affected.

Effect of This Document: An Informational Publication is a document issued by DRS that addresses frequently asked questions about a current position, policy, or practice, usually in a less technical question and answer format.

For Further Information: Please call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime:

- **Internet:** Preview and download forms and publications from the DRS Web site at **www.drs.state.ct.us**
- **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu.
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.

Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use **Fast-File** to electronically file sales and use taxes, business use tax, room occupancy tax, or withholding tax returns over the internet or telephone. Visit the DRS Web site at **www.drs.state.ct.us** and click on **File Returns On-Line**.
- **For resident income tax returns:** Use **WebFile** to file personal income tax returns over the Internet. Visit the DRS Web site at **www.drs.state.ct.us** and click on **File Returns On-Line**.